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December 21, 2000

BY HAND
Magalie Roman Salas, Esquire
Secretary
Federal Communications Commission
The Portals
445 12th Street, SW, Room TWB204
Washington, D.C. 20554

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DEC 21 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Comments of Roseville Telephone Company
CC Docket No. 00-199

Dear Ms. Salas:

On behalf of Roseville Telephone Company, I am hereby filing an original and four copies of its Comments in response to Phase 2 of the Notice of Proposed Rulemaking, released October 18, 2000 in the above-captioned proceeding.

If there are any questions regarding this matter, please contact me.

Sincerely,

Paul J. Feldman
Counsel for
Roseville Telephone Company

PJF:jpg

Enclosures

cc: Mr. Jack Day
Mr. Greg Gierczak

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Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
2000 Biennial Regulatory Review --	)	CC Docket No. 00-199
Comprehensive Review of the	)	
Accounting Requirements and	)	
ARMIS Reporting Requirements for	)	
Incumbent Local Exchange Carriers:	)	
Phase 2 and Phase 3	)	

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

COMMENTS OF ROSEVILLE TELEPHONE COMPANY

ROSEVILLE TELEPHONE COMPANY

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December 21, 2000

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SUMMARY

Roseville Telephone Company ("RTC") demonstrates in these Comments that imposing the Commission's cost allocation manual ("CAM") and Automated Reporting Management Information Systems ("ARMIS") requirements on mid-sized carriers places substantial unnecessary regulatory burdens on those carriers that are not outweighed by any public interest benefits. Accordingly, RTC supports treating all mid-sized and "two percent" companies as Class B carriers, thus eliminating all CAM and ARMIS requirements for such carriers. Alternatively, the Commission should raise the indexed revenue threshold that defines which carriers are required to comply with CAM and ARMIS requirements, from its current level of $114 million, to $500 million.

RTC is pleased that the Commission proposes in this proceeding to greatly reduce and/or eliminate unnecessarily burdensome accounting and reporting requirements on ILECs. In enacting regulatory relief for mid-sized companies in this proceeding, the Commission should consider the real costs of CAM and ARMIS requirements on companies such as RTC, which have just recently crossed the indexed revenue threshold, and become subject to CAM and ARMIS requirements. A break-down and analysis of the tasks involved in compliance, and the costs to RTC, is provided in the Comments. As shown therein, the initial costs of ARMIS compliance for a company such as RTC will be approximately $272,000, along with additional sunk costs for CAM compliance. This is a total of over $2.00 per access line. The approximate cost for on-going ARMIS compliance and on-going FCC CAM compliance will be at least $160,660 and $60,000 respectively per year for RTC, along with biennial attestation costs of $225,000. This comes to approximately $2.50 per access line.

Unfortunately, these costs do not disappear, but rather must be recovered, and will be recovered from subscribers to RTC's local exchange and access services.

Under the Section 11 standard, it is clear that CAM filing, maintenance and attestation/auditing requirements, and ARMIS reporting requirements, are no longer necessary or in the public interest for mid-sized carriers, due to both competition and other factors. The purpose of CAM requirements, and one purpose of ARMIS requirements, is to prevent ILECs from improperly shifting costs from non-regulated services to regulated services. Yet, competition in the local market has made such incentives unrealistic for ILECs. Competition in RTC's local market is no longer an abstract idea; rather, it is a reality. Over 10 CLECs provide local exchange and access service to customers in RTC's service area. RTC has already lost over 9 percent of its business access lines, as well as some residential lines and an unidentified portion of new growth to its competitors. While RTC does not engage in improper cost shifting, even if it wanted to do so, in these competitive circumstances, it would be counterproductive for RTC to do so.

In addition to pressure from competitors, RTC's allocation of costs between regulated and non-regulated entities has been and will continue to be reviewed by the California Public Utilities Commission ("CPUC"). For example, RTC has recently undergone an extensive cost allocation audit which incurred costs to RTC of $280,000 in auditor's fees. These costs equal approximately $1.22 per access line. While the extensive CPUC filing and audit requirements serve a similar regulatory purpose as the FCC's CAM requirements, compliance with CPUC requirements does not significantly lessen the burden on RTC of compliance with the FCC's CAM requirements. The entity performing the FCC CAM audit for RTC will still require the entire audit work plan to be completed, notwithstanding the recent audit performed for ORA.

RTC supports the proposal to treat all mid-sized ILEC operating companies, and all companies that serve less than two percent of the Nation's access lines, as Class B carriers. This would eliminate all CAM and ARMIS requirements for such carriers, and would promote administrative simplicity, by subjecting all mid-sized carriers to the same regulatory treatment, rather than having some mid-sized carriers be Class A, while others are Class B. If, however, the Commission chooses to use a different standard, then RTC suggests that the indexed revenue threshold be raised from the current $114 million, to $500 million. Such an approach would relieve the burden for at least the smaller of the mid-sized companies, upon which the burden falls harder.

Before the
Federal Communications Commission
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In the Matter of	)	
2000 Biennial Regulatory Review --	)	CC Docket No. 00-199
Comprehensive Review of the	)	
Accounting Requirements and	)	
ARMIS Reporting Requirements for	)	
Incumbent Local Exchange Carriers:	)	
Phase 2 and Phase 3	)	

COMMENTS OF ROSEVILLE TELEPHONE COMPANY

Roseville Telephone Company ("RTC"), by its attorneys, hereby submits these comments in response to the Phase 2 portion of the Notice of Proposed Rulemaking, released October 18, 2000 in the above-captioned proceeding ("*Notice*"). In these Comments, RTC demonstrates that imposing the Commission's cost allocation manual ("CAM") and Automated Reporting Management Information Systems ("ARMIS") requirements on mid-sized carriers places substantial unnecessary regulatory burdens on those carriers that are not outweighed by any public interest benefits. Accordingly, RTC supports treating all mid-sized and "two percent" companies as Class B carriers, thus eliminating all CAM and ARMIS requirements for such carriers. Alternatively, the Commission should significantly raise the indexed revenue threshold that defines which carriers are required to comply with CAM and ARMIS requirements.

I. Introduction

RTC is an incumbent local exchange carrier ("ILEC") serving subscribers in the Roseville, California area, and it has been providing high quality communications services to its subscribers for over 85 years. RTC currently serves approximately 132,000 access lines, and has only two central offices: Roseville and Citrus Heights.

RTC is pleased that the Commission proposes in this proceeding to greatly reduce and/or eliminate unnecessary accounting and reporting requirements on ILECs, especially mid-sized carriers. In light of wide-spread and growing competition in the local exchange market, many such requirements are not only unnecessary, but impose substantial costs on these mid-sized ILECs and discriminate in favor of competitors who are similar in size to or larger than mid-sized ILECs. Moreover, with the growth in telecommunications services spurring increased revenues for smaller and mid-sized companies, the current revenue threshold results in the imposition of CAM and ARMIS requirements onto companies that the Commission never intended to so burden.

RTC is particularly encouraged by the Commission's proposals to provide relief for mid-sized carriers. *Notice* at paras. 80-86. With annual revenues just above the current indexed threshold of $114 million[1], RTC has recently become subject to CAM and ARMIS requirements.[2] RTC is a member of the Independent Telephone &

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[1] *See* "Annual Adjustment of Revenue Threshold," *Public Notice*, DA 00-971 (rel. May 3, 2000).

[2] RTC filed its initial CAM on October 10, 2000. While RTC would otherwise be required to file its initial ARMIS reports in April of 2001, the Accounting Safeguards Division recently granted RTC a six month extension of time to file such reports. *Order*, ASD File No. 00-43, DA 00-2765 (rel. December 8, 2000).

Telecommunications Alliance ("ITTA"), and RTC supports the positions asserted by ITTA in this proceeding. RTC files these separate comments to more specifically demonstrate how the burden of CAM and ARMIS on companies like RTC are unnecessary, and far outweigh any public interest benefit gained from the information provided by RTC in compliance with those requirements.

II. **The Burden of Compliance With CAM and ARMIS <u>Requirements is Very Substantial on a Company Like RTC.</u>**

In enacting regulatory relief for mid-sized companies in this proceeding, the Commission should consider the real costs of CAM and ARMIS requirements on companies such as RTC. A break-down and analysis of the tasks involved in compliance, and the costs to RTC, is provided below.

A. <u>ARMIS REQUIREMENTS</u>

Preparation for and filing ARMIS Reports for the first time will require RTC to expend substantial personnel and monetary resources. First, RTC will have to perform the tasks involved in establishing manual processes, developing unique ARMIS software and/or locating software available from independent providers, while completing the necessary software patches between the current accounting system and ARMIS collection software.

After the ARMIS software is installed, and the personnel trained, there will be substantial costs for set up and performing the manual and automated tasks associated with collecting data and populating ARMIS reports for the first time. The Commission publishes the "average" annual burden in hours of performing the ARMIS reports. However, these "averages" account for the fact that most companies performing the tasks will have significant experience in doing so, and thus can perform them at peak efficiency. For a company performing these complex tasks for the first time, and relying on manual processes, the amount of time required will be significantly greater than "average". After consulting with other companies regarding their initial experience complying with ARMIS requirements, and performing its own internal analysis, RTC estimates that the actual time necessary to perform the mandated tasks would be significantly greater, as follows:

ARMIS Item	FCC Estimate[3]	RTC Estimate
Report 43-01	220 hours	850 hours
Report 43-02	960 hours	1,200 hours
Report 43-03	200 hours	480 hours
Report 43-04	1,150 hours	1,550 hours
Report 43-08	160 hours	250 hours
Report 495-A	40 hours	180 hours
Report 495-B	40 hours	180 hours
	2,770 hours	4,690 hours

Accordingly, RTC believes that conservatively it will take 4,690 hours to complete its initial ARMIS reports. This is the equivalent of more than two additional full time employees, not including managerial time. When salaries, costs and benefits are included, the loaded hourly cost of this work is $58, with the specific labor cost of

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[3] *See* Public Information Collections Public Notice, released March 29, 1999 (1999 FCC Lexis 1275), and Public Information Collections Public Notice, released February 12, 1997 (1997 FCC Lexis 810).

preparing for ARMIS thus equaling at least $272,000, or over $2.00 per access line.[4] This is a substantial expense for a company the size of RTC. And while the cost of ARMIS compliance would be reduced in subsequent years after the expenditure of initial costs of setting up systems and training personnel, the costs will still likely be close to the estimates provided by the Commission: 2,770 man hours per year, equaling at least $160,660 per year for RTC, or over $1.21 per access line.

B. CAM REQUIREMENTS

As was noted above, RTC filed its initial CAM in October of this year. Accordingly, RTC is very familiar with the costs of initial compliance with CAM requirements.

In preparing its initial CAM, RTC had to perform a comprehensive review of the Commission's cost allocation rules, RAO Letters and Orders on CAMs, as well as of the existing CAMs approved by the Commission. RTC also had to set up new systems for compiling information in a manner specific to FCC CAM requirements. Lastly, RTC had to set up new systems for formatting, publishing and revising CAMs for FCC purposes.

In addition to the costs of preparing an initial CAM, and the cost of on-going compliance, the Commission's rules require Class B carriers such as RTC to engage independent auditors to perform an audit or attestation every two years. RTC's auditors, Ernst & Young, have estimated that the cost of performing an attestation for RTC will be approximately $225,000, while the cost of performing a full audit would be approximately $250,000.

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[4] The preparation costs and costs of initial compliance with the ARMIS requirements do not include estimates of initial software programming time.

C. CAM/ARMIS COST SUMMARY

As shown above, the initial costs of ARMIS compliance for a company such as RTC which has just crossed the revenue threshold, will be approximately $272,000, along with additional sunk costs for CAM compliance. This is a total of over $2.00 per access line. Unfortunately, these costs do not disappear, but rather must be recovered, and will be recovered from subscribers to RTC's local exchange and access services. The approximate cost for on-going ARMIS compliance and on-going FCC CAM compliance will be at least $160,660 and $60,000 respectively per year for RTC, along with biennial attestation costs of $225,000.[5] This comes to approximately $2.50 per access line.

III. Imposition of CAM and ARMIS Requirements on Mid-Sized Carriers is Unnecessary and Any Public Interest Benefits Gained Are Outweighed by the Burdens Imposed on the Companies.

Section 11 of the Communications Act requires the Commission to biennially "review all regulations issued under this Act in effect at the time of review that apply to the operations or activities of any provider of telecommunications service" and to "determine whether any such regulation is no longer necessary in the public interest as a result of meaningful economic competition between providers of such services."[6] If the Commission makes that determination, it must repeal the regulation at issue. In the present proceeding, it is clear that CAM filing, maintenance and attestation/auditing

[5] In addition to fees paid to an auditor to perform the attestation, carriers are charged a fee of over $45,000 by the FCC to review the attestation. *See* Section 1.1105 of the Commission's Rules.

[6] 47 U.S.C. §161(a).

requirements, and ARMIS reporting requirements, are no longer necessary or in the public interest, due to both competition and other factors.

The purpose of CAM requirements is to prevent ILECs from improperly shifting costs from non-regulated services to regulated services. *See* Joint Cost Report and Order, 2 FCC Rcd 1298 (1987) at para. 1. Such concerns also form part of the basis for the ARMIS requirements. *See* ARMIS Report and Order, 2 FCC Rcd 5770 (1987) at para. 1. Yet, competition in the local market has made such incentives unrealistic for ILECs. Competition in RTC's local market is no longer an abstract idea; rather, it is a reality. Over 10 CLECs provide local exchange and access service to customers in RTC's service area. RTC has already lost over 9 percent of its business access lines, as well as some residential lines and an unidentified portion of new growth to its competitors. While RTC does not engage in improper cost shifting, even if it wanted to do so, in these competitive circumstances, it would be counterproductive for RTC to improperly shift costs from non-regulated to regulated local exchange and access services: this would only strengthen the price advantage for RTC's competitors, and lead to further loss of customers to such competitors.

In addition to pressure from competitors, RTC's allocation of costs between regulated and non-regulated entities has been and will continue to be reviewed by the California Public Utilities Commission ("CPUC"). For example, RTC has recently undergone an extensive cost allocation audit. The audit was ordered by the CPUC, developed for the California Office of Ratepayers Advocates ("ORA") by independent auditors, and was more encompassing than a CAM audit. Not only did the audit address CAM processes and procedures, but it also reviewed the basis for underlying assumptions and management decisions. This process has already incurred costs to RTC of $280,000 in auditor's fees. These costs equal approximately $1.22 per access line.

While the extensive CPUC filing and audit requirements serve a similar regulatory purpose as the FCC's CAM requirements, compliance with CPUC requirements does not significantly lessen the burden on RTC of compliance with the FCC's CAM requirements. The entity performing the FCC CAM audit for RTC will still require the entire audit work plan to be completed, notwithstanding the recent audit performed for ORA. Similarly, if RTC were to comply with the FCC requirements by performing an attestation rather than an audit, the work done for ORA will not be applicable, since the underlying rationale for the two procedures is not the same. In an audit, the criteria for the auditor is based on materiality to opine the fair representation of the financial information related to affiliate transactions. The internal controls are important only to assess their impact by relying on the substantive testing. In contrast, the attestation opinion is solely based on the internal control procedures. The internal controls are thoroughly tested to determine whether reliance on the procedures is appropriate.

In sum, CAM and ARMIS requirements are not necessary to prevent cost shifting by mid-sized carriers such as RTC. Competition and review by state commissions provide extensive protection against such behavior. Furthermore, the FCC's existing cost allocation and accounting rules (other than those for CAM filing, maintenance and auditing) provide an additional level of protection. RTC, like other mid-sized carriers, have long complied with the FCC's accounting and cost allocation rules, without the additional need for filing CAMs and ARMIS reports. Without evidence of cost shifting by mid-sized companies, there is no need to impose further CAM and ARMIS requirements on such companies. If the Commission has concerns regarding specific situations with specific companies, it can always require that company to provide specific documentation to demonstrate compliance with the underlying accounting rules.

In addition to being justified as a tool to help prevent cost shifting, the Commission has often justified the ARMIS reporting requirement on the need to collect broad industry-wide data to monitor industry developments, and evaluate regulatory proposals. *See, e.g.*, Report and Order in 1998 Biennial Regulatory Review of ARMIS Reporting Requirements, 14 FCC Rcd 11443 (1999) at para. 9. Yet, there is no need to impose this requirement on mid-sized companies in order to fulfill this goal. Each individual mid-sized company is so small that it cannot impact nation-wide trends. For example, RTC serves only 0.077 percent (seventy seven thousandths of a percent) of the nation's access lines.[7] Clearly no nation-wide trends are revealed from the information that RTC will have to file in ARMIS reports. Furthermore, the same could be said for the information provided by all mid-sized carriers together. The five largest ILECs (Verizon/GTE, SBC Corp., BellSouth, Qwest and Sprint) together represent

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[7] RTC currently serves approximately 132,000 access lines. As of December 31, 1999, there were 170,508,731 access lines in the U.S. *See*, Phone Facts 2000 (USTA).

approximately 92 percent of the nation's access lines.[8] Thus, even the mid-sized carriers as a whole cannot materially impact the trends and data from the large ILECs.

IV. All Mid-Sized and "Two Percent" Carriers Should Be Classified as Class B.

As shown above, imposition of CAM and ARMIS requirements on mid-sized carriers is an unnecessary and substantial regulatory burden, which is not outweighed by any public interest benefits. RTC is pleased that the Commission recognizes in the *Notice* that there is a need to provide some form of relief from these burdens to mid-sized carriers.

RTC supports the ITTA proposal to treat all mid-sized ILEC operating companies, and all companies that serve less than two percent of the Nation's access lines, as Class B carriers. This would eliminate all CAM and ARMIS requirements for such carriers, and would promote administrative simplicity, by subjecting all mid-sized carriers to the same regulatory treatment, rather than having some mid-sized carriers be Class A, while others are Class B.

If, however, the Commission chooses to use a different standard, then RTC suggests that the indexed revenue threshold be raised from the current $114 million, to $500 million. Such an approach would relieve the burden for at least the smaller of the mid-sized companies, upon which the burden falls harder.

V. Conclusion

It is clear that CAM filing, maintenance and attestation/auditing requirements, and ARMIS reporting requirements, impose a heavy regulatory burden on mid-sized

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[8] *See*, Phone Facts 2000 (USTA).

carriers, and are no longer necessary or in the public interest, due to both competition and other factors. The Commission should take the steps recommended above to relieve that unnecessary burden.

Respectfully submitted,

ROSEVILLE TELEPHONE COMPANY

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Its Attorney

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December 21, 2000

CERTIFICATE OF SERVICE

I, Joan P. George, a secretary in the law firm of Fletcher, Heald & Hildreth, do hereby certify that a true copy of the foregoing *Comments of Roseville Telephone Company* was sent this 21st day of December, 2000, via United States First Class Mail, postage prepaid, to the following:

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Joan P. George

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*By hand